

VZCZCXR08714

RR RUEHDBU RUEHIK RUEHYG
DE RUEHBUL #0216/01 0221137

ZNR UUUUU ZZH

R 221137Z JAN 07 ZDK

FM AMEMBASSY KABUL

TO RUEHC/SECSTATE WASHDC 5629

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RUEHZG/NATO EU COLLECTIVE

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UNCLAS SECTION 01 OF 02 KABUL 000216

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E.O. 12958: N/A

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SUBJECT: PRT FARAH: ECONOMIC SNAPSHOT -- POPPY AND IRAN

DOMINATE, ECONOMY AND TAXES STRUGGLING

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¶1. (SBU) SUMMARY: Despite being dry and barren, Farah depends heavily on agriculture. Although poppy production has decreased recently, Farah remains a major poppy producing province. Governor-led eradication has begun, but it has a long way to go. The Alternative Livelihoods Program is not available in the province. Farah could become a candidate if sufficient supplemental funds are approved. Iran continues to serve as a major economic life line for the province. The majority of men in Farah seek employment in Iran, and Iranian products and currency are common in bazaars. Tax collection is almost non-existent. END SUMMARY

The Economy: Poppy and Iran

¶2. (SBU) Although a mostly dry and barren region suffering from years of drought, Farah is mainly an agricultural society. Fruits and vegetables, predominantly wheat and corn, are the province's staples. However, due to current water shortages, poppy now dominates agricultural production.

Much of the poppy produced is smuggled into Iran. While poppy production decreased last year, other agriculture did not take up the slack as markets and distribution channels for other crops remained limited. Alternative Livelihood Program money is not available in Farah, so without external support, farmers will continue to find it difficult to profitably switch crops.

¶3. (SBU) Given that Farah Province shares a long border with Iran, most products sold in the Farah City bazaar are smuggled in from Iran and purchased with Iranian currency. Local businesses include ice cube producers, bakeries, and 120 chicken farms that import chicks from Iran. Construction companies handling government projects, local NGOs, and PRT contracts dominate Farah's private sector.

¶4. (SBU) Farah Province has roughly 428,000 inhabitants, 100,000 of whom reside in the provincial capital, Farah City. The unemployment rate is estimated to be high. The majority

of family breadwinners, including many women from throughout the province, seek work in Iran. The Iranian Consulate in Herat recently increased its visa fees for Afghans from USD 20-30 to USD 100, which has resulted in an increase in illegal border crossings along the Nimroz Province border just south of Farah. Women tend not to work in the private sector, but some work in government and non-governmental jobs.

Tax Collection Non-Existent

¶5. (SBU) Farah local governmental entities levy a number of annual taxes. Tax collection, however, is almost non-existent. The collection rate for district and business taxes ranges from zero to two percent. Construction companies are assessed a tax of three percent of the price of contracts, but many fail to submit their contracts to the tax office. The following are the main taxes in Farah:

-- The district tax is one to six percent of income; the tax office has no mechanism or power to collect money, even though there is supposed to be a resident tax officer in each district.

-- Land tax is 50 Afghanis (50 Afs equal one USD) per jerib (five jeribs equal one hectare), but no tax is due during drought years.

-- The shop (city) tax is six percent on the inventory value and two percent on profits, though no one shows much profit. Wholesalers are charged 18 percent on receipts (with a 10,000 Afs or USD 200 penalty for not having receipts) and two percent on reported profits (what the businessman decides to report).

-- The flour mill tax is based on amounts produced and the horsepower of the engine used to grind the wheat)- 24 horsepower pays 4800 Afs (USD 96), 16 horsepower pays 3200 Afs (USD 64), and 12 horsepower pays 2400 Afs (USD 48) tax.

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-- Transport charges are based on vehicle weight and range from 2000 to 30,000 Afs (USD 40-600). The collection rate for this tax is estimated at 50 to 60 percent.

-- The professional fee is for doctors with more than ten years of experience and is assessed at 1000 Afs (USD 20) for every year of experience.

-- City fees range from two to six percent, based on income; there is a 20 to 30 percent collection rate.

¶6. (SBU) To raise revenue, the Farah City mayor can collect rent from government-owned shops or houses and one month's rent per year from private shops. A five percent collection rate is normal. The mayor can also sell government land, though this is not always done transparently or fairly. The mayor recently sold some land next to the PRT which may turn out to be PRT-authorized-use land and not for sale. Purchasers already building on the land may be forced to remove any structures.

¶7. (SBU) Taxes are collected between July and December. Money collected is sent to Farah City and deposited into a special tax account. Kabul officials determine what percentage of these funds stays in the province. According to many villagers, some district administrators collect their own taxes, although this practice does not fall under Kabul regulations.

¶8. (SBU) Comment: In a province as poor as Farah, where poppy is the most viable and profitable crop, greater central government attention to economic development will be required if the province is to develop a real economy. Smuggling and the use of the Iranian currency hinders establishment of a local economy tied to the rest of Afghanistan. For the foreseeable future, the Iranian economy will therefore likely continue to serve as a life line for the province. On the positive side, Farah is one of five provinces where the Governor has initiated governor-led eradication -- 60 hectares of poppy have been eradicated to date. Embassy and

PRT will encourage the Governor to take advantage of more anti-poppy programs, such as the message multiplier program during the pre-planting campaign next fall. USAID has requested supplemental funding for Alternative Livelihoods, some of which could possibly go to Farah. We will continue to encourage Farah to access substantial funds that are unallocated but available through the Counter Narcotics Trust Fund for Alternative Livelihood activities. End Comment

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